

CITY OF MILWAUKEE
DEFERRED COMPENSATION BOARD
INVESTMENT GUIDELINES

STABLE VALUE ACCOUNT (SVA)

I. POLICY GOALS

- A. Objectives - The SVA has as its primary objective providing preservation of invested principal and, consistent with this goal, shall seek to also provide as a secondary objective a return that maintains the value of the account in terms of inflation and achieves any added return when possible. The Investment Guidelines shall be construed and applied consistent with these objectives.
- B. Performance Benchmarks
1. Principal Preservation - SVA investment returns (Net of the Portfolio Manager's Fee) will seek to be positive over all time periods.
 - a) Manager will seek to minimize the likelihood of tapping benefit-responsive contract clauses and put provisions by using a combination of cash and liquidity management techniques.
 2. Manager Performance
 - a) The Objective for the SVA is that over a rolling five-year period the SVA investment returns (net of the Portfolio Manager's Fee) will seek to meet or exceed a blended benchmark consisting of 30% I-Money Market Net All Taxable Index and 70% Barclay's Capital 1-3 Year Government Index.

II. PORTFOLIO CONSTRUCTION

- A. Target Portfolio – Consistent with the objective of the SVA the manager will seek to maintain the portfolio characteristics consistent with the approximate target ranges noted below.

Target Range
(Book value)

Pool of investment contracts
referred to in Article III.B.

60-80%

Government or Treasury Money Market Funds referred to in Article III.A.

20-40% **

** A temporary waiver was granted by the Board, effective 10/29/12 allowing the Stable Value Account Manager not to exceed 50% of the cash limit subject to review at the next Board meeting scheduled for Thursday, May 2, 2013.

III. GUIDELINES AND CRITERIA FOR SELECTION OF INVESTMENTS INCLUDED IN THE UNIVERSE

- A. The allocation to money market funds must be invested in either Government or Treasury money market funds.
- B. Approved criteria noted below in section III.B are applicable to those assets invested in Traditional GICs, BICs, book value wrap contracts and Insurance Company Separate Account Contracts. With the exception of the specific reference to credit quality within section III.B.1.d the criteria noted in section III.B shall not be applicable to the underlying assets of any collective investment trust or other pooled investment vehicles in which the SVA invests. To help ensure any such investment is consistent with the City's intended risk considerations the Manager will evaluate the aggregate average credit quality and duration of any collective investment trusts or other pooled investment vehicle (as an individual security) and shall keep both factors consistent with the City's guideline requirements. This evaluation will be in addition to the initial due diligence review and ongoing general evaluation of any collective investment by the Manager.

1. Credit Quality

a. Issuers of Traditional GICs, BICs, wrapped benefit responsive security-backed contracts and Separate Account Contracts must have at least a A-/A3 rating at time of purchase based upon the methodology noted below

b. All underlying securities must be rated by at least two of the following Nationally Recognized Statistical Rating Organizations (NRSRO) or Credit Rating Agencies (CRA); Moody's, Standard & Poor's or Fitch at time of purchase ("Approved Credit Agency"). The Manager at its discretion may elect to revise the agencies utilized assuming that any replacement agencies qualify as either an NRSRO or CRA. For purposes of calculating minimum average rating, the following methodology shall apply:

- If 3 ratings are available, the median of the three is to be used
- If 2 ratings are available, the lower of the two is to be used

c. Due to the fact that pooled investment products do not typically obtain a direct rating from a credit rating agency, investments in such products, including registered investment companies and collective investment trusts, shall be exempt from the requirements of section III(B)1(b) but shall be evaluated based upon the overall weighted average credit quality of the underlying securities of such products, and shall be required to have a minimum overall weighted average credit quality of A- or better as indicated below. In addition, the investment guidelines of such products, including registered investment companies and collective investment trusts, and other pooled investment products shall not permit the purchase of any individual asset, collective investment trust, or other pooled investment product with a credit rating of less than BBB- at the time of purchase, based upon the methodology set forth above in this Section III.B.

d. Individual assets must carry a rating of at least A- rating at time of purchase based upon the methodology noted above.

e. The weighted average SVA credit quality requirement is AA, and shall be calculated based upon the methodology noted above.

2. Diversification

- a. Issuer - No more than 5% of the SVA assets may be directed to any one issuer of GICs, or BICs. No more than 40% of the SVA assets may be directed to any one insurance company separate account issuer or issuer of book value wrap contracts. Both the Board and Manager acknowledge that it is the preference of the Board to have no more than 25% of the SVA assets be directed to any one insurance company separate account issuer or issuer of book value wrap contracts, and both the Board and Manager acknowledge that the Manager may from time to time, in its discretion, determine that it is appropriate to direct, for a period of time, more than 25% (but no more than 40%) of the SVA assets to any one insurance company separate account issuer or issuer of book value wrap contracts. Percentage limits are based on Book Values at time of purchase.
- b. Assets underlying wrapped benefit responsive security-backed contracts and Separate Account Contracts - Percentage limits are based on Market Values at time of purchase.
 - i) Exposure to an individual security or issuer, excluding Agency and Treasury obligations and other pooled investment vehicles such as collective investment trusts, is limited to no more than 3% of the SVA assets.

ii) Sector Limitations

<u>Sectors</u>	<u>Sector Maximum (as % of total Market Value SVA assets)</u>
U.S. Treasuries	100%
U.S. Agency Debentures (including, but not limited to issues of FNMA, FHLB, FHLMC, and FDIC-backed Notes)	50%
Corporates	40%
Industrial	20%
Finance	20%
Utilities	20%
Foreign*	15%
Residential MBS (CMO Pass-Through)	60%
Agency	50%
Non-Agency	10%
Commercial MBS	20%
Asset-Backed	30%

**Foreign securities generally include securities issued outside of the US or traded in*

non-US Dollar denominations. Securities of foreign entities which are issued in the US and traded in US Dollar denominations, typically referred to as "Yankee Bonds" are not typically categorized as foreign securities by Morley. Dollar denominated, or currency risk must be hedged back into U.S. dollars.

- c. No more than 25% of total SVA assets (Book Value) will be invested in Traditional GICs and BICs.
 - d. No more than 50% of SVA assets will be invested in collective investment trusts and no more than 25% of the SVA assets will be invested in any single collective investment trust product.
 - i) Collective investment trusts for which manager's affiliate Union Bond and Trust Company serves as trustee are subject to the trustee's internal anti-dilution charge policy deeming purchases or redemptions by investors of units totaling more than 10 percent of the preceding business day's net asset value of the fund "significant" purchases or redemptions that are subject to an anti-dilution charge. Accordingly, in no event shall the amount of SVA assets invested in any such collective investment trust equal or exceed 10 percent of such trust. Further, manager shall provide the Board advance notice of any change to the percentage of net asset value deemed "significant" for purposes of the anti-dilution charge policy.
 - 3. Maturity - Guaranteed Investment Contracts and Bank Investment Contracts with final maturities of more than six years are not permissible investments for the SVA.
 - 4. Duration - In aggregate, total non-money fund assets will be managed with a weighted average duration of between one and four years.
 - 5. Use of Derivatives - The portfolio manager may use a combination of fixed income investments, interest rate swaps, futures, options and other similar instruments as appropriate to serve as a hedge to meet the SVA objectives. Derivatives are not to be used for the purpose of leveraging or speculation. Counterparty ratings must be consistent with both credit quality guidelines and investment diversification limitations as described in Section III.B and prudently diversified by contract issuer. Exposure will be measured on a net exposure basis.
- C. Variance from Investment Guidelines. The specific investment guidelines noted above are designed to represent a comprehensive longer-term strategy, and as such, the SVA may fall outside the Investment Guidelines in some circumstances (a "Variance"), such as during various transitional periods including but not limited to the adoption of revised guidelines, periods of unusual cash flow, or unique market events. In such case, the Manager shall provide prompt written notification, as soon as possible but no later than one week, to the Board describing the specifics of the Variance ("Variance Notice").

Within one week of submitting a Variance Notice, the Manager shall either (i) provide to the Board a strategy that the Manager will implement to resolve the Variance as soon as prudently practical; (ii) request that the Board approve the Variance so long as it is constrained within specified parameters; or (iii) propose Investment Guideline modifications for the Board's consideration. If the Board provides the Manager with written notice of objection to a Variance, the Manager shall promptly provide the Board

with alternative options and shall seek to resolve the Variance consistent with the Boards instructions within thirty (30) days of receiving the Boards notice of objection. Upon completion of any investment management transactions executed to resolve the Variance or upon mutual acceptance of alternative options to resolve the Variance, the Variance and all accompanying transactions and associated holdings will be considered consistent with the current Investment Management Agreement and any accompanying exhibits or addendum.

- D. The Manager will report quarterly on any Variances.

IV. MISCELLANEOUS PROVISIONS

- A. Future Guidelines Changes Morley may from time to time make recommendations to the Board concerning the desire of revising the terms of the Investment Guidelines set forth herein. No changes shall be considered final until such time as mutually accepted by the Board and the Manager.
- B. Service Expectations – The following represents a list of services which under normal conditions the Manager seeks to provide. The lack of codification of certain services does not imply that such services will not be performed nor does this provision guarantee the performance of services that have been enumerated.
1. As requested by the Board the Chief Investment Officer or Portfolio Manager of the Manager will update the Board regarding the status of SVA once a year in person.
 2. Manager will make available Portfolio Manager via telephone/account representative in person, at Manager's expense for scheduled quarterly Board meetings and will provide written materials in advance of the meetings.
 3. Manager will provide the Board a Morley Standard Reporting Package on a monthly basis (Sample shown in Attachment A).
 4. Manager will provide the Board copies of any new wrap contracts or GIC contracts.
 5. As requested, Manager will provide the Board an annual written update on the State of the Stable Value Market
 6. Manager will provide prior written notification to the Board of any material change to the terms of any collective investment trust managed by Morley Capital Management in which any portion of the SVA is invested pursuant to the notification process set forth in the governing instrument(s) of any such collective investment trust.
- C. Capitalized terms not otherwise defined herein shall have the meanings provided in the Amended and Restated Investment Management Agreement dated March 15, 2013.

EQUITY FUNDS

I. POLICY GOALS and BENCHMARKS

- A. Passively Managed U.S. Equity Account (PMUSEA) is designed to track investing in the broad U.S. equity market.

Benchmarks: Dow Jones U.S. Total Stock Market Index

- B. Passively Managed International Equity Account (PMIEA) is designed to track the investment performance of international markets. Ordinarily the main emphasis will be on the major foreign markets, as represented by MSCI-EAFE, but may also include emerging markets.

Benchmarks: MSCI World Ex-USA Index and Vanguard Total International Index.

Compared to a benchmark with an 80% allocation to the broad U.S. equity market and a 20% allocation to international equity markets, the Actively Managed Equity Account (AMEA) is designed to outperform over market cycles, but with less volatility on a risk-adjusted basis (as measured by the Account's Sharpe Ratio) through active investment strategies and active management of the fund selections and allocations among the funds.

Benchmark: Performance will be measured on an on-going basis and evaluated compared to a blend of 80% Russell 3000 Index 20% MSCI World Ex-USA Index. The Actively Managed Equity Account is expected to outperform the blended benchmark on a risk-adjusted basis over a rolling 5-year period.

II. GUIDELINES AND CRITERIA FOR SELECTION OF FUNDS INCLUDED IN THE UNIVERSE

The guidelines, criteria and the universe have been developed and recommended by the Investment Advisor and approved by the Deferred Compensation Board. Changes in the guidelines, criteria, and/or universe require approval of the Deferred Compensation Board.

- A. Passively Managed U.S. Equity Account (PMUSEA)

1. Track the investment performance of the broad U.S. equity market, including large, mid and small capitalization stocks.
2. To deliver this investment experience cost-effectively.

- B. Passively Managed International Equity Account (PMIEA)

1. Track the performance of non-U.S. securities markets, primarily, but not exclusively, the major foreign equity markets.
2. To deliver this investment experience cost-effectively.

C. Actively Managed Equity Account

1. Funds with daily valuation available for investment in the Plan.
2. All funds must have total net assets of at least \$25 million in the strategy or product at time of purchase. With the prior approval of the Executive Finance Committee (EFC), funds with less than \$25 million in total net assets may be considered so long as the investment advisor to the fund has at least \$25 million in assets under management and the Plan's investment in the fund will not exceed 9% of the fund's total net assets. (This provision allows for the use of start-up and incubator funds, with approval of the Executive Finance Committee, but in limited amounts.)
3. All investments will be without sales charges, either front-end or deferred sales charges.
4. Identifiable record, at least 5 years long, although the record may have been compiled at a different fund or different firm so long as the Plan's advisor can document to the satisfaction of the EFC that this is an experienced, accomplished investment team with a consistently applied and successful strategy.
5. Funds may be selected from any Lipper, Inc. Classification and/or investment category included in the Lipper, Inc. databank.
6. Funds employing strategies that involve short selling, margin or derivative securities as part of the basic investment strategy, not for cash management purposes may be purchased and reported to the EFC at the next meeting accompanied by the rationale for the investment. These funds will be considered part of the Specialty and Sector Category for diversification purposes regardless of the Lipper Inc. Category.

III. PORTFOLIO CONSTRUCTION

The policies regarding Portfolio construction are approved by the Deferred Compensation Board.

A. Passive Managed U.S. Equity Account (PMUSEA) Portfolio Option

Policy Range

Dow Jones U.S. Total Stock Market Index	100%
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B. Passive Managed International Equity Account (PMIEA) Portfolio Option

The allocation to emerging markets vs. developed markets will be dictated by the weightings in the Vanguard FTSE All-World ex-US Fund.

C. AMEA Portfolio Option

1. Funds may be selected from any Lipper, Inc. classification and/or investment category included in the Lipper, Inc. database.

2. No single fund can exceed 25% of the account's total net assets.
3. The account may not have more than 25% of assets invested in funds managed by one fund family.
4. The account may not have more than 25% of assets invested in one registered investment advisor.

	Policy Range
Diversified Domestic Equity Funds	55-100%
International Funds	0-25%
Sector and/or Specialty Funds	0-20%

The advisor will report to the Executive Director and Executive Finance Committee any and all material changes to the make-up of the account at the time of any discretionary activity. Material changes include investing in a new fund, deletion of a fund or a shift of more than 5% of the account's assets.

ACTIVELY MANAGED INCOME ACCOUNT (AMIA)

I. POLICY GOALS

- A. Objective - The objective of the AMIA is first to provide total return through the pursuit of high income to compound tax deferred and secondarily preservation of capital by pursuit of positive returns over a calendar year. The account may include all major bond fund types and certain equity mutual funds with an income objective. The underlying securities may have a variety of maturities, credit qualities and yields. The account may, at times, emphasize investing in medium and lower credit quality bonds in order to garner the benefit of high current income. The account will seek to reduce credit risk through diversification among mutual funds.
- B. Strategy Evaluation - Because investors in the AMIA experience more variability in return, including the possibility of negative returns over a year's time, the AMIA is expected to produce a higher total return than the Stable Value Account, when measured over a 5 year time horizon. As a fixed income strategy with less risk of loss than the equity oriented accounts, it is expected to underperform the equity oriented accounts over time.

Account Performance - The benchmarks by which the advisor, subadvisor and strategy will be regularly evaluated include:

1. Total return compared to Barclays Aggregate Bond Index on a rolling 5-year and 10-year basis.

2. Total return compared to the Stable Value Fund on a rolling 5-year basis.
3. The risk-adjusted return (as measured by the Sharpe Ratio) compared to Barclays Aggregate Bond Index on a rolling 5-year and 10-year basis is expected to be higher.

Investment Fund Selection – Over shorter and longer time periods, each of the mutual funds used in the AMIA will be compared to the average of its peer group.

II. PORTFOLIO CONSTRUCTION

- A. The policies regarding portfolio construction are approved by the Deferred Compensation Board.

1. Funds may be selected from any Lipper Inc. fixed income classification and/or fixed income investment category.
2. In addition, funds may be selected from the Flexible Income, Income, Mixed Assets, Real Estate, and Large Value and Equity Income categories.
3. The following diversification guidelines apply:

<u>Category</u>	<u>Maximum Allocation</u>
High current	40%
All equity and equity related categories combined	20%
All international categories	25%

4. No single fund can exceed 25% of the account's total net assets.
5. The account may not have more than 25% of assets invested in funds managed by one fund family with the exception of Vanguard because of its index funds and low cost funds.
6. The account may not have more than 25% of assets invested in one registered investment advisor, with the exception of Vanguard because of its index and other low cost passively managed funds.

III. GUIDELINES AND CRITERIA FOR SELECTION OF FUNDS

- A. Diversify the selection of funds across fixed income and selected equity categories.
- B. Select funds with competitive total return and competitive yield, while striving to reduce volatility across the Income Account.
- C. Select funds which appear to have a well-defined management approach, consistently applied.

- D. Include mutual funds which can be purchased by the Account without a sales load and have competitive expense ratios.
- E. Consider size of fund and ease of use.
- F. The advisor has discretion to select and invest in funds that meet the following criteria:
 - 1. Funds with daily valuation available for investment in the Plan.
 - 2. All funds must have total net assets of at least \$25 million in the strategy or product at time of purchase. With the prior approval of the Executive Finance Committee (EFC), funds with less than \$25 million in total net assets may be considered so long as the investment advisor to the fund has at least \$25 million in assets under management and the Plan's investment in the fund will not exceed 9% of the fund's total net assets. (This provision allows for the use of start-up and incubator funds, with approval of the Executive Finance Committee, but in limited amounts.)
 - 3. All investments will be without sales charges, either front-end or deferred sales charges.
 - 4. Identifiable record, at least 5 years long, although the record may have been compiled at a different fund or different firm so long as the Plan's advisor can document to the satisfaction of the EFC that this is an experienced, accomplished investment team with a consistently applied and successful strategy.

BALANCED SOCIALLY CONSCIOUS ACCOUNT (BSCA)

I. POLICY GOALS

BSCA is designed to equal or exceed the returns of a blended benchmark consisting of 60% Russell 3000 Index/40% Barclays Aggregate Bond Index.

II. GUIDELINES AND CRITERIA FOR SELECTION OF FUNDS INCLUDED IN THE UNIVERSE

The guidelines, criteria and the universe have been developed and recommended by the Investment Advisor and approved by the Deferred Compensation Board. Changes in the guidelines, criteria, and/or universe require approval of the Deferred Compensation Board.

- A. Balanced Socially Conscious Account
 - 1. Socially conscious constraints consistent with the respondents' preferences.
 - 2. Acceptable performance.
 - 3. Well defined approach to investment management, consistently applied.
 - 4. Cost effective
 - 5. Within its objective, prudent diversification
 - 6. Size of fund, ease of use.
- B. See Attachment "A" which includes the approved Universe of Funds

III. PORTFOLIO CONSTRUCTION

A. BSCA Portfolio Option

	<u>Policy Range</u>
Balanced Funds	0-50%
Equity Index	5-35%
Equity Funds	20-60%
Treasury and GNMA Funds	15-40%
Funds investing in other than GNMA's Government Agencies	0-40%
Investment Grade Debt Funds	0-20%

The Index funds proportions in the BSCA portfolio may vary within the approved policy range depending upon market proportions as outlined in Operating Procedures. The BSCA portfolio funds may vary depending upon cash flows and market considerations as outlined in the Operating Procedures. The Investment Advisor has discretion to make reasonable market judgments on allocation of new cash, redemptions, and rebalancing within the approved ranges.

Fund selection within the approved universe may be changed, upon the recommendation of the Investment Advisor, by the Deferred Compensation Executive Finance Committee so long as the goals, objectives, and policies on the portfolio construction are within the approved guidelines. The guidelines for the goals, objectives, and policy ranges on portfolio construction can only be amended by the Deferred Compensation Board.

MODEL PORTFOLIOS

I. POLICY GOALS

Create Portfolios with different investment objectives to allow participants investment choices that alleviate the need to create asset allocations directly.

There are four investment Portfolios with different goals and guidelines designed to meet various return and risk combinations: Conservative, Accumulator, Wealth Builder and Aggressive. Each Portfolio is constructed using various combinations of Plan Accounts. Each Portfolio's structure may be changed on the advice of the Plan's Investment Advisor with notice to participants in the quarterly Employee Memo and implementation of any changes in the first week of the third month of each calendar quarter.

Conservative Portfolio

This portfolio focuses on capital preservation and reducing risk. It may be appropriate if you have a short investment time horizon, perhaps because you plan to retire within the next few years or if you are in distribution.

Accumulator Portfolio

Seeking modest growth while attempting to limit market value volatility of the portfolio, this portfolio may be appropriate if you have an intermediate time horizon or are uncomfortable with significant fluctuation in the value of the account.

Wealth Builder Portfolio

This portfolio seeks growth and total returns to outpace inflation. If you have a longer time horizon, 5 to 10 years, or may have started saving at a later age but are comfortable with greater principal volatility, this portfolio may be right for you. There may be significant changes in returns including negative returns from time to time.

Aggressive Portfolio

This portfolio seeks substantial growth over time. It is most appropriate if you have a long time horizon, ten or more years, and you can tolerate fluctuations in the market. Investors may experience significant swings in returns and returns may be negative for multiple periods in a row.

Portfolio Construction and Asset Allocation Guidelines

	Conservative		Accumulator		Wealth Builder		Aggressive	
	Min	Max	Min	Max	Min	Max	Min	Max
Stable Value	45%	55%	20%	30%	10%	20%	0%	10%
AMIA	25	50	30	50	20	40	20	40
PMUSEA	0	10	0	15	15	25	15	30
PMIEA	0	0	0	5	0	15	15	30
AMEA	5	25	10	40	25	50	30	70

Adopted	08-19-93			
Amended	11-18-93	08-02-01	8-03-06	12-05-08
	05-05-94	11-15-01	10-13-06 draft	06-03-09
	08-04-94	02-07-02	11-16-06	08-20-09
	11-21-96	11-21-02	02-01-07	05-06-10
	02-06-97	08-07-03	08-02-07	05-25-11
	08-07-97	05-06-04	11-15-07	11-17-11
	11-18-99	08-05-04	05-01-08	02-16-12 Model Portfolios added
	11-16-00	11-17-05	08-07-08	

05-03-12 – SVA (Item 2a. Issuer) changing the previous maximum from 25% to 40%

08-07-12 – Benchmark changes in the AMEA and BSCA

10-29-12 – SVA temporary waiver granted not to exceed 50% of the cash limit

03-15-13 – SVA collective investment trust or pooled investment vehicles